

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name CITY OF SCOTTVILLE	County MASON
Fiscal Year End 6/30/07	Opinion Date 09/27/07	Date Audit Report Submitted to State 10/9/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

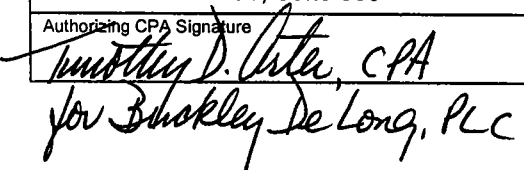
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Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>	NO OTHER REPORTS REQUIRED		
Certified Public Accountant (Firm Name) Brickley DeLong, PLC		Telephone Number (231) 726-5800		
Street Address 316 Morris Avenue, Suite 500		City Muskegon	State MI	Zip 49443
Authorizing CPA Signature 		Printed Name TIMOTHY D. ARTER		License Number 10253

City of Scottville
Mason County, Michigan

REPORT ON FINANCIAL STATEMENTS
(with required supplementary information)

Year ended June 30, 2007

City of Scottville
LIST OF ELECTED AND APPOINTED OFFICIALS
June 30, 2007

Mayor Leon Begue

Mayor Pro Tem Richard Maki

City Commission Bonnie Pfefferle
Ron Merrill
Joe Baxter
Jeff Gilchrist
Andrew Peterson

APPOINTED OFFICIALS

City Manager/Clerk..... Amy Hansen

Deputy City Clerk/Utility Clerk..... Deborah Howe

Finance Officer/Treasurer..... Stacey Swiatlowski

Police Chief Larry Nichols

City of Scottville

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This discussion and analysis is intended to serve as an introduction to the City of Scottville's basic financial statements. This report consists of a series of financial statements for the City as of June 30, 2007. The City's basic financial statements are comprised of three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the financial statements

The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the City operations in more detail than the government-wide financial statements.

This report also contains other required supplementary information in addition to the basic financial statements themselves.

FINANCIAL HIGHLIGHTS

At the close of the fiscal year, the City of Scottville had total assets of \$10,911,162 and total liabilities of \$3,571,208 leaving total net assets of \$7,339,954. Of this amount, \$303,916 (unrestricted net assets) may be used to meet the ongoing obligations to citizens and creditors.

Governmental activities had net income of \$388,121, and business-type activities had net income of \$22,718.

OVERVIEW OF THE FINANCIAL STATEMENTS

Government-wide Financial Statements

The government-wide financial statements are designed to provide the reader with a broad overview of the City's finances. The statements are similar to those of a private sector business.

The Statement of Net Assets presents information of all the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during the fiscal year. All changes in net assets are reported when the event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenditures are reported in this statement for some items that will only result in cash flows in the future fiscal periods.

Both of the government-wide statements mentioned above distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are designed to recover all or a significant part of their costs through user fees and charges for services (business type activities). The government activities of the City include general government, public safety, public works, and cultural and recreational activities. The business-type activities of the City include the water and sewer services.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories; governmental funds, proprietary funds, and fiduciary funds.

Governmental Funds

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. Unlike the government-wide financial statements, governmental fund financial statements focus on current sources, uses, and balances of spendable resources available at the end of the fiscal year. This information may be useful in evaluating a governmental entity's short-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's short-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the two.

The City maintains several individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund and Major Streets Fund. Data from the other funds are combined into a single, aggregated presentation. Individual fund data for each of these non-major governmental funds is provided in the form of combining statements elsewhere in this report.

Proprietary Funds

The City has two enterprise funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its water and sewer operations.

Enterprise funds provide the same type of information as the government-wide financial statements, only in more detail. The enterprise funds financial statements provide separate information for the Water and Sewer funds, both of which are major funds.

Fiduciary Funds

Fiduciary funds are used to account for resources held for the benefit of parties outside the City. Fiduciary funds are not reflected on the government-wide financial statements because the resources from those funds are not available to support the City's programs. The accounting method used for fiduciary funds is much like that used for the proprietary funds.

Notes to Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The reader is encouraged to include the reading of this section in any attempt to analyze and understand these statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City's budgetary information as it relates to the actual expenditures for the General Fund.

The combining statements referred to earlier in connection with non-major governmental funds are presented immediately following the required supplementary information on budgetary information.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Recall that the Statement of Net Assets provides the perspective of the City as a whole. The first table presented below provides a summary of the City's net assets. As of June 30, 2007, the City's net assets from governmental activities totaled \$2,158,106 and \$5,181,848 from business-type activities, creating a government-wide net asset total of \$7,339,954. For comparison purposes as of June 30, 2006, the City's net assets from governmental activities totaled \$1,769,985 and \$5,159,130 from business-type activities, creating a government wide net asset total of \$6,929,115.

In examining composition of net assets, the reader should note that the amount of governmental activities net assets that are invested in capital assets (i.e., streets, buildings, furniture and equipment, etc.). These assets are used to provide services to the residents, and are not available to pay salaries, operational expenses or fund capital projects. The unrestricted net assets for governmental-type activities actually depict a balance of \$258,499. This represents the amount of discretionary cash or investments that can be used for general government operations.

For governmental activities, capital assets and the corresponding investment in capital assets net of related debt net assets category increased due work done on West Johnson road and the beginning of improvement projects for the boat launch and campground and the purchase of the Healy land. Current assets and unrestricted net assets decreased due to the costs of these capital assets.

The business-type activities show a total of \$5,181,848 in net assets and \$45,417 in unrestricted net assets. The Sewer Fund and Water Fund unrestricted net assets (deficit) are \$(90,933) and \$132,232, respectively.

Management's Discussion and Analysis

Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Current assets and other assets	\$ 1,299,559	\$ 1,443,086	\$ 401,642	\$ 492,497	\$ 1,701,201	\$ 1,935,583
Capital assets	1,588,808	900,340	7,621,153	7,559,703	9,209,961	8,460,043
Total assets	2,888,367	2,343,426	8,022,795	8,052,200	10,911,162	10,395,626
Current liabilities	282,273	171,583	160,797	134,257	443,070	305,840
Noncurrent liabilities	447,988	401,858	2,680,150	2,758,813	3,128,138	3,160,671
Total liabilities	730,261	573,441	2,840,947	2,893,070	3,571,208	3,466,511
Net assets						
Invested in capital assets, net of related debt	1,545,320	807,282	4,867,203	4,735,390	6,412,523	5,542,672
Restricted	354,287	426,733	269,228	217,466	623,515	644,199
Unrestricted	258,499	535,970	45,417	206,274	303,916	742,244
Total net assets	\$ 2,158,106	\$ 1,769,985	\$ 5,181,848	\$ 5,159,130	\$ 7,339,954	\$ 6,929,115

Changes in Net Assets

The results of this year's operations for the City as a whole are reported in the Statement of Activities, which shows the changes in net assets for fiscal year 2007. You will also see a revenue and expense comparison with fiscal year 2006.

Governmental Activities

During the fiscal year ending June 30, 2007, the City's governmental activities experienced an overall increase in the net assets of \$388,121. The following table shows these results.

Capital grants and contributions increased due to grant funding for the West Johnson Road project and campground and boat launch improvements. General government expenses increased due to studies and planning done on a potential new City hall that the City decided not to pursue at this time. Public works expenses were less than last year because last year's expenses included an increase in the estimate of future landfill remediation.

Business-type Activities

During the fiscal year ending June 30, 2007, the City experienced an overall increase in the net assets of \$22,718 or approximately 1%. The following table shows these results.

The only significant difference between the current year and previous year was the increase in capital contributions. The capital contributions in the current year are for water and sewer tap fees from new hookups and system expansion.

Changes in Net Assets

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues:						
Program revenues						
Charges for services	\$ 191,220	\$ 188,975	\$ 453,372	\$ 477,886	\$ 644,592	\$ 666,861
Operating grants	130,692	132,112	-	-	130,692	132,112
Capital grants and contributions	418,240	28,986	137,128	13,688	555,368	42,674
General revenues						
Property taxes	442,224	427,029	-	-	442,224	427,029
Grants and contributions not restricted	159,113	163,286	-	-	159,113	163,286
Unrestricted investment earnings	51,562	44,848	20,313	15,352	71,875	60,200
Miscellaneous	13,286	12,290	-	-	13,286	12,290
Gain on sale of capital assets	2,077	-	-	-	2,077	-
Total revenues	1,408,414	997,526	610,813	506,926	2,019,227	1,504,452
Expenses:						
General government	345,220	261,175	-	-	345,220	261,175
Public safety	183,406	186,194	-	-	183,406	186,194
Public works	363,912	413,124	-	-	363,912	413,124
Culture and recreation	124,770	125,577	-	-	124,770	125,577
Interest on long term debt	2,985	4,894	-	-	2,985	4,894
Sewer Fund	-	-	409,008	400,708	409,008	400,708
Water Fund	-	-	179,087	161,802	179,087	161,802
Total expenses	1,020,293	990,964	588,095	562,510	1,608,388	1,553,474
Change in net assets	388,121	6,562	22,718	(55,584)	410,839	(49,022)
Net assets - Beginning	1,769,985	1,763,423	5,159,130	5,214,714	6,929,115	6,978,137
Net assets - Ending	\$ 2,158,106	\$ 1,769,985	\$ 5,181,848	\$ 5,159,130	\$ 7,339,954	\$ 6,929,115

FINANCIAL ANALYSIS OF THE GOVERNMENT'S FUNDS

As stated earlier in this discussion and analysis, the City uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds

The focus of the City's governmental funds is to provide information on near-term inflows, outflows, and balances in spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unreserved fund balances may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At the end of the 2007 fiscal year, the governmental funds reported a combined undesignated fund balance of \$806,437 of which \$601,024 is in the General Fund. There were no unreserved fund deficits in any of the City's governmental funds. The remainder of the fund balance is reserved or designated to indicate that it is not available for new spending because it has already been committed to 1) pay capital purchases and liquidate inventories and prepaids \$42,496; 2) pay maintenance of rights of way \$18,535; 3) pay improvements for Riverside Park \$11,679; and 4) reserves for perpetual care \$91,554.

The General Fund is the chief operating fund of the City. The General Fund pays for administration, public safety, general public works, assessments, elections, legal, recreation, boards and commissions, and other minor functions. The General Fund ended the year with a fund balance of \$616,414, a decrease of \$146,146 from fiscal year 2006. The primary reason for the decrease was the purchase of the Healy land. The health of the General Fund may be measured by the ratio of unreserved General Fund balance to annual General Fund expenditures. Unreserved fund balance represents 59% of the General Fund expenditures.

The Major Streets Fund ended the year with a fund balance of \$121,096, a decrease of \$49,746 from fiscal year 2006. The combined non-major governmental funds realized a small decrease in fund balance of \$25,846 for the fiscal year.

Proprietary funds

The City's proprietary funds provide the same type of information found in the governmental financial statement, but in more detail. Net assets of the Sewer Fund decreased by \$59,336, while the Water Fund increased by \$83,871. The result was an overall increase of \$24,535.

General Fund Budget

During the current fiscal year, the City made several amendments to its original General Fund budget. The most significant of those is listed below:

- Property tax revenues were originally budgeted for \$334,600 and were amended up to \$349,600 because of a large increase in the taxable value that was not originally budgeted for when preparing the 2006/2007 fiscal budget.
- Charges for services revenues were originally budgeted for \$148,925 and were amended up to \$166,325 for cable franchise fees. These fees were eventually recorded in a different revenue category.
- Investment earnings were originally budgeted for \$19,500 and were amended up to \$33,500 because of the increase in interest rates for City investments.
- City Commission expenditures were originally budgeted for \$31,913 and were amended up to \$60,503 because of expenses associated with consultants on the proposed new City Hall project.
- Department of public works expenditures were originally budgeted for \$72,125 and were amended up to \$87,050 because of the additional work in this department. With this increase there was offsetting decreases in the other areas that the Department of Public employees worked.
- Capital outlay expenditures were originally budgeted for \$689,342 and were amended down to \$308,637 because the Riverside Park Campground project did not start during this fiscal budget as originally planned.
- Proceeds from long-term debt was originally \$125,000 and was amended down to \$77,400 because of the City hall project.

Budget Variations

The following comments summarize the major variations from the final budget to actual revenues and expenditures in the General Fund.

- Property tax revenues were \$374,496, \$24,896 more than budgeted because of the increase in the City's taxable value.
- State grant revenues were \$526,694, \$242,634 less than budgeted because the Riverside Park campground project did not begin within the fiscal year, and the Boat Launch project was also started later than originally anticipated. The grant revenues will now be higher in the 2007/2008 fiscal year.
- Charges for services revenues were \$149,063, \$17,262 less than budgeted because of the campground project preparations and a decrease in the number of campers.
- City commission expenditures were \$107,552; \$47,049 more than budgeted because of the costs associated with the development of a new City Hall project that ultimately did not move forward.
- Capital outlay expenditures were \$319,592; \$10,955 more than budgeted because of engineering fees that were originally budgeted as professional services.
- There were no proceeds from long-term debt because the Healy property was purchased with available funds.

Capital Asset Administration

The City's most significant capital asset expenditure this year were the completion of work on West Johnson Road for \$340,849, the beginning of work on the boat launch for \$123,540, the beginning of work on campground improvements for \$42,280, and the purchase of the Healy land for \$150,000.

Debt Administration

As of June 30, 2007, the City had outstanding long-term liabilities of \$3,246,938 consisting of various revenue bonds, installment purchases, landfill remediation costs and compensated absences.

On the governmental side of the City, the largest source of debt is the landfill remediation costs. The liability is estimated each year based on the average actual costs over the three most recent years, then extrapolated to the number of years remaining. The change in estimate is shown as an increase in the debt in the current year. The balance of the landfill remediation liability at June 30, 2007 is \$412,300 or 13% of total debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Scottville's 2007-08 budget calls for a decrease in the City's Operating Millage from 17.30160 to 16.5000 due to another large increase in our taxable value which gives the City the ability to give its citizens a break in the millage rate. Even with the decrease in millage the City will have an increase in total tax collections as the City's taxable value has increased significantly. The increase in taxable value was largely due in part to a 425 Agreement with Amber Township as well as the past 425 agreements with Custer Township. The new 425 Agreement has added a new subdivision to the City which has significantly increased the City's taxable value along with development on the U.S. 31 bypass.

The City did not increase water or sewer rates in the past fiscal year; however, this will be considered for the new budget as the Sewer Fund had to get a loan from the General Fund to cover a cash deficit at the end of the year.

The City is planning to purchase a new tractor, mower and make improvements to City Hall and the Department of Public Works building in the upcoming fiscal year.

As mentioned in last year's Management and Discussion Analysis, the City applied for two DNR Grants which we did receive this year. The first grant was for the Boat Launch project in which the DNR awarded us \$82,300 and the second was for Riverside Park Campground Upgrades, in which the DNR awarded us \$284,400. Both of these projects have started and will be completed in the 2007/2008 fiscal budget.

Contacting the City's Management

This financial report is intended to provide our citizens, taxpayers, residents, voters, customers and investors with a general overview of the City's finances as well as to depict the City's accountability for the money it receives and spends. If you have questions about this report or need additional information, we welcome you to contact City Hall at 231-757-4729, Scottville City Hall, located at 105 North Main Street, Scottville, MI 49454. Scottville City Hall is open Monday through Friday from 8:00 AM to 5:00 PM excluding most national holidays.

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

September 27, 2007

City Commission
City of Scottville
Scottville, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scottville as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Scottville's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Scottville as of June 30, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The managements' discussion and analysis and budgetary comparison information on pages i - viii and 28 - 29 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Scottville's basic financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



City of Scottville
STATEMENT OF NET ASSETS
June 30, 2007

ASSETS

	Governmental activities	Business-type activities	Total
CURRENT ASSETS			
Cash and investments	\$ 980,652	\$ 129,571	\$ 1,110,223
Receivables	31,372	56,438	87,810
Internal balances	66,803	(66,803)	-
Due from other governmental units	213,254	-	213,254
Inventories	3,767	11,308	15,075
Prepaid items	3,711	-	3,711
Total current assets	1,299,559	130,514	1,430,073
NONCURRENT ASSETS			
Restricted assets	-	271,128	271,128
Capital assets, net			
Nondepreciable	482,000	6,457	488,457
Depreciable	1,106,808	7,614,696	8,721,504
Total noncurrent assets	1,588,808	7,892,281	9,481,089
Total assets	2,888,367	8,022,795	10,911,162
LIABILITIES AND NET ASSETS			
CURRENT LIABILITIES			
Accounts payable and accrued liabilities	171,054	29,891	200,945
Customer deposits	-	6,565	6,565
Due to other governmental units	61,419	50,541	111,960
Deferred revenue	4,800	-	4,800
Bonds and other obligations, due within one year	45,000	73,800	118,800
Total current liabilities	282,273	160,797	443,070
NONCURRENT LIABILITIES			
Bonds and other obligations, less amounts due within one year	447,988	2,680,150	3,128,138
Total liabilities	730,261	2,840,947	3,571,208
NET ASSETS			
Invested in capital assets, net of related debt	1,545,320	4,867,203	6,412,523
Restricted for:			
Streets and highways	147,272	-	147,272
Debt service	-	91,371	91,371
Capital projects	35,018	177,857	212,875
Perpetual care - nonexpendable	91,554	-	91,554
Garbage refuse and collection	33,739	-	33,739
Downtown development	46,704	-	46,704
Unrestricted	258,499	45,417	303,916
Total net assets	\$ 2,158,106	\$ 5,181,848	\$ 7,339,954

The accompanying notes are an integral part of this statement.

City of Scottville
STATEMENT OF ACTIVITIES
For the year ended June 30, 2007

<i>Functions/Programs</i>	Expenses	Program Revenue			Net (Expense) Revenue and Changes in Net Assets		
		Charges for services	Operating grants and contributions	Capital grants and contributions	Governmental activities	Business-type activities	Total
Governmental activities							
General government	\$ 345,220	\$ 28,193	\$ -	\$ -	\$ (317,027)	\$ -	\$ (317,027)
Public safety	183,406	3,367	367	-	(179,672)	-	(179,672)
Public works	363,912	29,297	130,325	273,660	69,370	-	69,370
Culture and recreation	124,770	130,363	-	144,580	150,173	-	150,173
Interest on long-term debt	2,985	-	-	-	(2,985)	-	(2,985)
Total governmental activities	1,020,293	191,220	130,692	418,240	(280,141)	-	(280,141)
Business-type activities							
Sewer	409,008	287,540	-	52,131	-	(69,337)	(69,337)
Water	179,087	165,832	-	84,997	-	71,742	71,742
Total business-type activities	588,095	453,372	-	137,128	-	2,405	2,405
Total government	\$ 1,608,388	\$ 644,592	\$ 130,692	\$ 555,368	(280,141)	2,405	(277,736)
General revenues							
Property taxes					442,224	-	442,224
Grants and contributions not restricted to specific programs					159,113	-	159,113
Unrestricted investment earnings					51,562	20,313	71,875
Miscellaneous					13,286	-	13,286
Gain on sale of capital assets					2,077	-	2,077
Total general revenues					668,262	20,313	688,575
Change in net assets					388,121	22,718	410,839
Net assets at July 1, 2006					1,769,985	5,159,130	6,929,115
Net assets at June 30, 2007					\$ 2,158,106	\$ 5,181,848	\$ 7,339,954

The accompanying notes are an integral part of this statement.

City of Scottville
BALANCE SHEET
Governmental Funds
June 30, 2007

	General Fund	Major Streets Fund	Other governmental funds	Total governmental funds
ASSETS				
Cash and investments	\$ 503,510	\$ 144,207	\$ 235,887	\$ 883,604
Accounts receivable	29,832	-	1,540	31,372
Due from other governmental units	194,740	14,220	4,294	213,254
Inventories	-	-	3,767	3,767
Prepaid items	3,711	-	-	3,711
Advances to other funds	70,921	-	-	70,921
Total assets	<u>\$ 802,714</u>	<u>\$ 158,427</u>	<u>\$ 245,488</u>	<u>\$ 1,206,629</u>
LIABILITIES AND FUND BALANCES				
Liabilities				
Accounts payable	\$ 155,885	\$ 118	\$ 5,536	\$ 161,539
Accrued liabilities	7,957	93	120	8,170
Due to other governmental units	17,658	37,120	6,641	61,419
Deferred revenue	4,800	-	-	4,800
Total liabilities	186,300	37,331	12,297	235,928
Fund balances				
Reserved for:				
Inventories	-	-	3,767	3,767
Prepaid items	3,711	-	-	3,711
Capital projects	-	-	35,018	35,018
Rights of way maintenance	-	-	18,535	18,535
Perpetual care	-	-	91,554	91,554
Unreserved				
Designated for Riverside Park improvements	11,679	-	-	11,679
Undesignated, reported in				
General Fund	601,024	-	-	601,024
Special revenue funds	-	121,096	84,317	205,413
Total fund balances	<u>616,414</u>	<u>121,096</u>	<u>233,191</u>	<u>970,701</u>
Total liabilities and fund balances	<u>\$ 802,714</u>	<u>\$ 158,427</u>	<u>\$ 245,488</u>	<u>\$ 1,206,629</u>

The accompanying notes are an integral part of this statement.

City of Scottville
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
 TO THE STATEMENT OF NET ASSETS**
 June 30, 2007

Total fund balance—governmental funds	\$	970,701
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Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and
are not reported in the governmental funds.

Cost of capital assets	\$ 1,719,211	
Accumulated depreciation	<u>(401,513)</u>	1,317,698

Long-term liabilities in governmental activities are not due and payable in the
current period and are not reported in the governmental funds.

Landfill remediation cost	(412,300)	
Compensated absences	<u>(37,200)</u>	(449,500)

Internal service funds are used by management to charge the costs of certain activities to
individual funds. The assets and liabilities of the internal service funds are reported with
governmental activities in the Statement of Net Assets.

		<u>319,207</u>
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Net assets of governmental activities in the Statement of Net Assets	\$	<u><u>2,158,106</u></u>
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The accompanying notes are an integral part of this statement.

City of Scottville
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Governmental Funds
For the year ended June 30, 2007

	General Fund	Major Streets Fund	Other governmental funds	Total governmental funds
REVENUES				
Property taxes	\$ 374,496	\$ -	\$ 67,729	\$ 442,225
Licenses and permits	8,443	-	-	8,443
Intergovernmental revenues				
Federal	20,000	273,660	-	293,660
State	284,060	90,579	31,878	406,517
Charges for services	149,063	-	30,587	179,650
Fines and forfeitures	3,367	-	-	3,367
Investment earnings	34,703	7,108	13,262	55,073
Other	13,046	-	-	13,046
Total revenues	887,178	371,347	143,456	1,401,981
EXPENDITURES				
Current				
General government	316,625	-	21,334	337,959
Public safety	179,806	-	-	179,806
Public works	112,890	42,736	109,370	264,996
Culture and recreation	110,061	-	-	110,061
Debt service				
Principal	-	-	63,766	63,766
Interest and fees	-	-	2,100	2,100
Capital outlay	319,592	340,849	4,590	665,031
Total expenditures	1,038,974	383,585	201,160	1,623,719
Excess of revenues over (under) expenditures	(151,796)	(12,238)	(57,704)	(221,738)
OTHER FINANCING SOURCES (USES)				
Transfers in	5,650	-	53,004	58,654
Transfers out	-	(37,508)	(21,146)	(58,654)
Total other financing sources (uses)	5,650	(37,508)	31,858	-
Net change in fund balances	(146,146)	(49,746)	(25,846)	(221,738)
Fund balances at July 1, 2006	762,560	170,842	259,037	1,192,439
Fund balances at June 30, 2007	\$ 616,414	\$ 121,096	\$ 233,191	\$ 970,701

The accompanying notes are an integral part of this statement.

City of Scottville
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES**

For the year ended June 30, 2007

Net change in fund balances—total governmental funds	\$ (221,738)
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report outlays for capital assets as expenditures; in the Statement of Activities, these costs are depreciated over their estimated useful lives.

Depreciation expense	\$ (30,156)	
Capital outlay	<u>665,031</u>	634,875

Changes in estimated costs of landfill remediation are not shown in the governmental funds, but the change increases long-term liabilities in the Statement of Net Assets.	(86,251)
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Repayment of principal on long-term debt is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets.	63,551
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Interest expense on long-term debt is recorded in the Statement of Activities when incurred, but is not reported in the governmental funds until paid.	1,000
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Compensated absences are reported on the accrual method in the Statement of Activities and reported as expenditures when financial resources are used in the governmental funds.	700
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The internal service funds are used by management to charge the costs of equipment used to individual funds. The net revenue of the internal service funds is reported with governmental activities.	<u>(4,016)</u>
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Change in net assets of governmental activities	\$ <u><u>388,121</u></u>
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The accompanying notes are an integral part of this statement.

City of Scottville
STATEMENT OF NET ASSETS
Proprietary Funds
June 30, 2007

ASSETS

	Business-type Activities - Enterprise funds			Governmental activities- Internal service fund
	Sewer	Water	Total	
CURRENT ASSETS				
Cash and investments	\$ -	\$ 129,571	\$ 129,571	\$ 97,049
Accounts receivable	39,190	17,248	56,438	-
Inventories	-	11,308	11,308	-
Total current assets	39,190	158,127	197,317	97,049
NONCURRENT ASSETS				
Restricted assets	177,857	93,271	271,128	-
Capital assets				
Land	-	6,457	6,457	-
Utility systems	7,318,681	1,444,666	8,763,347	-
Buildings and improvements	-	-	-	17,748
Equipment and furniture	13,510	37,656	51,166	640,864
Less accumulated depreciation	(592,866)	(606,951)	(1,199,817)	(387,502)
Net capital assets	6,739,325	881,828	7,621,153	271,110
Total noncurrent assets	6,917,182	975,099	7,892,281	271,110
Total assets	6,956,372	1,133,226	8,089,598	368,159
LIABILITIES AND NET ASSETS				
CURRENT LIABILITIES				
Accounts payable	9	66	75	88
Accrued liabilities	27,662	2,154	29,816	1,258
Customer deposits	-	6,565	6,565	-
Due to other governmental units	31,531	19,010	50,541	-
Bonds and other obligations, due within one year	39,800	34,000	73,800	10,300
Total current liabilities	99,002	61,795	160,797	11,646
NONCURRENT LIABILITIES				
Advances from other funds	70,921	-	70,921	-
Bonds and other obligations, less amounts due within one year	2,357,275	322,875	2,680,150	33,188
Total noncurrent liabilities	2,428,196	322,875	2,751,071	33,188
Total liabilities	2,527,198	384,670	2,911,868	44,834
NET ASSETS				
Invested in capital assets, net of related debt	4,342,250	524,953	4,867,203	227,622
Restricted for:				
Replacement	177,857	-	177,857	-
Debt service	-	91,371	91,371	-
Unrestricted	(90,933)	132,232	41,299	95,703
Total net assets	\$ 4,429,174	\$ 748,556	5,177,730	\$ 323,325
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			4,118	
Net assets of business-type activities			\$ 5,181,848	

The accompanying notes are an integral part of this statement.

City of Scottville
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS
Proprietary Funds
For the year ended June 30, 2007

	Business-type Activities - Enterprise funds			Governmental activities- Internal service fund
	Sewer	Water	Total	
REVENUES				
Charges for services	\$ 287,540	\$ 165,832	\$ 453,372	\$ 87,371
OPERATING EXPENSES				
Administration	21,913	18,148	40,061	-
Operations	122,624	112,693	235,317	61,034
Depreciation	144,271	28,290	172,561	36,934
Total operating expenses	288,808	159,131	447,939	97,968
Operating income (loss)	(1,268)	6,701	5,433	(10,597)
NONOPERATING REVENUES (EXPENSES)				
Investment earnings	9,202	11,111	20,313	4,357
Connection fees	52,131	45,997	98,128	-
Gain on sale of capital assets	-	-	-	2,077
Interest expense	(119,401)	(18,938)	(138,339)	(1,670)
Total nonoperating revenue (expenses)	(58,068)	38,170	(19,898)	4,764
Income (loss) before contributions	(59,336)	44,871	(14,465)	(5,833)
Capital contributions	-	39,000	39,000	-
Change in net assets	(59,336)	83,871	24,535	(5,833)
Net assets at July 1, 2006	4,488,510	664,685		329,158
Net assets at June 30, 2007	\$ 4,429,174	\$ 748,556		\$ 323,325
Adjustment to reflect the consolidation of internal service fund activities related to enterprise funds			(1,817)	
Change in net assets of business-type activities			\$ 22,718	

The accompanying notes are an integral part of this statement.

City of Scottville
STATEMENT OF CASH FLOWS
Proprietary Funds
For the year ended June 30, 2007

	Business-type Activities - Enterprise funds			Governmental activities- Internal service fund
	Sewer	Water	Total	
CASH FLOWS FROM OPERATING ACTIVITIES				
Receipts from customers	\$ 288,054	\$ 156,977	\$ 445,031	\$ -
Receipts from interfund services provided	1,094	1,100	2,194	87,371
Payments to suppliers	(119,088)	(85,686)	(204,774)	(46,331)
Payments to employees	(11,147)	(33,284)	(44,431)	(14,917)
Payment for interfund services used	(6,625)	(8,439)	(15,064)	-
Net cash provided by operating activities	152,288	30,668	182,956	26,123
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES				
Advances from other funds (net)	70,921	-	70,921	-
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES				
Capital contributions	-	39,000	39,000	-
Connection fees	43,254	45,997	89,251	-
Purchases of capital assets	(100,841)	(133,170)	(234,011)	(90,679)
Principal paid on capital debt	(36,363)	(34,000)	(70,363)	(9,970)
Interest paid on capital debt	(111,401)	(18,938)	(130,339)	(1,870)
Proceeds from sale of capital assets	-	-	-	2,229
Net cash used for capital and related financing activities	(205,351)	(101,111)	(306,462)	(100,290)
CASH FLOW FROM INVESTING ACTIVITIES				
Investment earnings	9,202	11,111	20,313	4,357
Net increase (decrease) in cash and investments	27,060	(59,332)	(32,272)	(69,810)
Cash and investments at July 1, 2006	150,797	282,174	432,971	166,859
Cash and investments at June 30, 2007	<u>\$ 177,857</u>	<u>\$ 222,842</u>	<u>\$ 400,699</u>	<u>\$ 97,049</u>
Reconciliation of cash and investments to statement of net assets				
Cash and investments	\$ -	\$ 129,571	\$ 129,571	\$ 97,049
Restricted assets	177,857	93,271	271,128	-
	<u>\$ 177,857</u>	<u>\$ 222,842</u>	<u>\$ 400,699</u>	<u>\$ 97,049</u>
Reconciliation of operating income (loss) to net cash provided by operating activities				
Operating income (loss)	\$ (1,268)	\$ 6,701	\$ 5,433	\$ (10,597)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities				
Depreciation expense	144,271	28,290	172,561	36,934
Change in assets and liabilities				
Accounts receivable	1,608	(7,190)	(5,582)	-
Inventories	-	304	304	-
Accounts payables	(518)	66	(452)	(194)
Accrued liabilities	148	(54)	94	(20)
Customer deposits	-	(565)	(565)	-
Due to other governmental units	8,047	3,116	11,163	-
Net cash provided by operating activities	<u>\$ 152,288</u>	<u>\$ 30,668</u>	<u>\$ 182,956</u>	<u>\$ 26,123</u>

The accompanying notes are an integral part of this statement.

City of Scottville
STATEMENT OF FIDUCIARY NET ASSETS
 Fiduciary Funds
 June 30, 2007

	<u>Trust Fund</u> Riverside Park	<u>Agency Fund</u> Escrow Tax Trust
ASSETS		
Cash and investments	\$ 11,274	\$ -
LIABILITIES		
Due to other governmental units	-	-
Total liabilities	-	\$ -
NET ASSETS		
Held in trust for Riverside Park	\$ 11,274	

The accompanying notes are an integral part of this statement.

City of Scottville
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
Fiduciary Funds
For the year ended June 30, 2007

	Riverside Park Memorial Trust Fund
	<u> </u>
ADDITIONS	
Investment gain	\$ <u> 440 </u>
 Change in net assets	 440
 Net assets at July 1, 2006	 <u> 10,834 </u>
 Net assets at June 30, 2007	 \$ <u><u> 11,274 </u></u>

The accompanying notes are an integral part of this statement.

City of Scottville
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the City of Scottville (City) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the City's accounting policies are described below.

Reporting Entity

The City is a municipal corporation governed by an elected seven member council with an appointed mayor. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Blended component units, although legally separate entities, are, in substance, part of the government's operations.

Blended Component Unit

Downtown Development Authority (DDA). The City appoints all Board members and approves annual budgets for the Authority, and the legal liability for the general obligation portion of the Authority's debt remains with the City. The Authority is reported as a special revenue fund.

Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirement of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues. The City does not allocate indirect costs.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

City of Scottville
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, licenses and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The City reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Streets Fund accounts for money distributed by the State of Michigan for construction and maintenance of major streets within the City.

The City reports the following major proprietary funds:

The Sewer Fund operates the City's sewage pumping station, collection systems and pays for access to the City of Ludington's sewage treatment plant.

The Water Fund operates the City's water distribution system.

Additionally, the City reports the following fund types:

The Internal Service Fund accounts for equipment management services provided to other funds of the government on a cost reimbursement basis.

The Private Purpose Trust Fund is used to account for resources held in trust for the Riverside Park.

The Agency Fund is custodial in nature and does not measure results of operations or have a measurement focus.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Government Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

City of Scottville
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation—Continued

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the City's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenues include 1) charges to customers or applicants for goods, services or privileges provided, 2) operating grants and contributions and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues are charges to customers for sales and services. The enterprise funds also recognize as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Assets, Liabilities and Net Assets or Equity

Deposits and Investments

The City's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of six months or less from the date of acquisition.

The City reports its investments in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. Under this standard, certain investments are valued at fair value as determined by quoted market prices or by estimated fair values when quoted market prices are not available. The standard also provides that certain investments are valued at cost (or amortized cost) when they are of a short-term duration, the rate of return is fixed and the City intends to hold the investment until maturity.

The City has adopted an investment policy in compliance with State of Michigan statutes. Those statutes authorize the City to invest in obligations of the United States, certificates of deposit, prime commercial paper, securities guaranteed by United States agencies or instrumentalities, United States government or federal agency obligation repurchase agreements, bankers acceptances, state-approved investment pools and certain mutual funds.

The component unit's cash and investments are maintained within the City's investment pool.

City of Scottville
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Receivables and Payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds". Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances".

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of allowance for uncollectibles.

The City bills and collects its own property taxes and also collects taxes for the county, school and State of Michigan. Taxes are levied on July 1 on the taxable valuation of property (as defined by state statutes) located in the Local Governmental Unit as of the preceding December 31. Uncollected real property taxes as of the following March 1 are turned over by the City to the County for collection. The County advances the City all of these delinquent real property taxes. The delinquent personal property taxes remain the responsibility of the City. The City recognizes all available revenue from the current tax levy. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period (60 days).

The 2006 state taxable value for real/personal property of the City totaled approximately \$23,183,900 of which approximately \$934,000 was captured by the DDA. The ad valorem taxes levied consisted of 17.3016 mills for operation and 1.5 mills for garbage collection. An additional 2.0 mills is levied on all taxable value in the DDA district of approximately \$3,375,800. These amounts are recognized in the respective General Fund, Garbage and Refuse Collection Fund, and DDA General Fund with additional captured amounts also shown in the DDA General Fund.

Inventories and Prepaid Items

All inventories are valued at cost using the first-in/first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets

Certain proceeds of the Enterprise Fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the balance sheet because they are maintained in separate bank accounts and their use is limited by applicable bond covenants.

City of Scottville
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure assets (e.g., roads, bridges, sidewalks and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

In the case of the initial capitalization of general infrastructure assets (i.e., those reported by governmental activities) the City chose to include only items acquired since July 1, 2003 as allowed by generally accepted accounting principles.

Property, plant and equipment is depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Land improvements	20
Buildings and improvements	15-40
Public domain infrastructure	20-30
System infrastructure and improvements	10-66
Vehicles and equipment	5-20

Compensated Absences

City employees are granted vacation and sick leave in varying amounts based on length of service. Accumulated vacation leave must be taken in the current calendar year. Upon termination, employees are paid for unused vacation at their current rates. Sick leave is accumulated at the rate of one day per month of employment up to 880 hours. Unused accumulated sick leave is paid to employees with 10 years or more of service who resign or retire, limited to 30 days, not to exceed \$4,000 per employee. The liability for these compensated absences is accrued when incurred in the government-wide and proprietary fund financial statements. The current portion of this liability is estimated based on historical trends. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

City of Scottville
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE A—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES—Continued

Assets, Liabilities and Net Assets or Equity—Continued

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Bond premiums and discounts as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures.

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end.

The City follows these procedures in establishing the budgetary information provided in the financial statements:

- a. Prior to June 30, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted at the City Hall to obtain taxpayer comments.
- c. Not later than the second Monday in May, the budget is legally enacted through passage of a resolution.
- d. Supplemental appropriations, when required to provide for additional expenditures, are matched by additional anticipated revenues or an appropriation of available fund balance and must be approved by the City Council. All appropriations lapse at year end.

City of Scottville
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE B—STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY—Continued

Budgetary Information—Continued

The appropriated budget is prepared by fund, function and department. The City's department heads may make transfers of appropriations within a department. Transfers of appropriations between departments require the approval of the City Council. The legal level of budgetary control is the department level. The City Council made several supplemental budgetary appropriations throughout the year.

Excess of Expenditures Over Appropriations

During the year ended June 30, 2007, actual expenditures exceeded appropriations for:

	Amended budget	Actual
General Fund		
City commission	\$ 60,503	\$ 10,752
Capital outlay	308,637	319,592
Major Streets Fund		
Capital outlay	110,662	340,849
Local Streets Fund		
Winter maintenance	12,252	16,703
Garbage and Refuse Collection Fund		
Principal	18,000	24,166

These overexpenditures were funded with available fund balance.

Fund Deficit

As of June 30, 2007, the Sewer Fund had an unrestricted net assets deficit of \$90,933. The deficit will be eliminated through future operations.

NOTE C—DEPOSITS AND INVESTMENTS

As of June 30, 2007, the City had only cash and cash equivalents.

Interest rate risk. The City's investment policy limits investment maturities to five years or less and requires the overall weighted average duration of its entire portfolio be less than three years as a means of managing its exposure to fair value losses arising from increasing interest rates.

Credit risk. State law limits investments in commercial paper and corporate bonds to the two highest classifications issued by nationally recognized statistical rating organizations. The City has no investment policy that would further limit its investment choices.

Concentration of credit risk. Concentration of credit risk is the risk of loss attributed to the magnitude of the City investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized. The City's investment policy limits various types of investments to certain percentages of the City's total investment portfolio as a means of managing its risk.

City of Scottville
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE C—DEPOSITS AND INVESTMENTS—Continued

Custodial credit risk - deposits. In the case of deposits, this is the risk that in the event of a bank failure, the City's deposits may not be returned to it. As of June 30, 2007, \$1,291,170 of the City's bank balance of \$1,395,302 was exposed to custodial credit risk because it was uninsured and uncollateralized.

Custodial credit risk - investments. Custodial credit risk is the risk that, in the event of the failure of the counterparty, the City will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The City's investment policy sets certain requirements for financial institutions to be eligible to do business with the City as a means to limit its risk.

Foreign currency risk. The City is not authorized to invest in investments which have this type of risk.

Restricted Assets

Restrictions are placed on assets by bond ordinance and City Council action. At June 30, 2007, restricted cash and investments in the City are restricted as follows:

Water Fund	
Repairs and maintenance	\$ 31,002
Bond and interest redemption fund	8,351
Bond reserve fund	53,918
	<u>93,271</u>
Sewer Fund	
Replacement reserve fund	<u>177,857</u>
	<u>\$ 271,128</u>

NOTE D—CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 171,359	\$ 128,156	\$ -	\$ 299,515
Construction in progress	93,173	511,259	421,947	182,485
	<u>264,532</u>	<u>639,415</u>	<u>421,947</u>	<u>482,000</u>
Capital assets, being depreciated:				
Land improvements	71,046	-	-	71,046
Buildings and improvements	669,059	-	927	668,132
Vehicles and equipment	852,714	116,295	234,311	734,698
Infrastructure	<u>-</u>	<u>421,947</u>	<u>-</u>	<u>421,947</u>
Total capital assets, being depreciated	1,592,819	538,242	235,238	1,895,823

City of Scottville
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE D—CAPITAL ASSETS—Continued

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Governmental activities:—Continued				
Less accumulated depreciation:				
Land improvements	\$ 3,552	\$ 3,552	\$ -	\$ 7,104
Buildings and improvements	331,241	21,430	927	351,744
Vehicles and equipment	622,218	42,108	234,159	430,167
Total accumulated depreciation	957,011	67,090	235,086	789,015
Total capital assets, being depreciated, net	635,808	471,152	152	1,106,808
Capital assets, net	\$ 900,340	\$ 1,110,567	\$ 422,099	\$ 1,588,808
Business-type activities:				
Capital assets, not being depreciated:				
Land	\$ 6,457	\$ -	\$ -	\$ 6,457
Capital assets, being depreciated:				
Water system	1,311,496	133,170	-	1,444,666
Sewer system	7,217,840	100,841	-	7,318,681
Equipment and furniture	76,894	-	25,728	51,166
Total capital assets, being depreciated	8,606,230	234,011	25,728	8,814,513
Less accumulated depreciation:				
Water system	552,359	24,498	-	576,857
Sewer system	439,186	143,825	-	583,011
Equipment and furniture	61,439	4,238	25,728	39,949
Total accumulated depreciation	1,052,984	172,561	25,728	1,199,817
Total capital assets, being depreciated, net	7,553,246	61,450	-	7,614,696
Capital assets, net	\$ 7,559,703	\$ 61,450	\$ -	\$ 7,621,153

City of Scottville
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE D—CAPITAL ASSETS—Continued

Depreciation

Depreciation expense has been charged to functions as follows:

Governmental activities:

General government	\$ 2,215
Public safety	3,472
Public works	5,856
Culture and recreation	18,613
Internal Service Fund depreciation is charged to the various programs based on their usage of the assets.	<u>36,934</u>
	<u>\$ 67,090</u>

Business-type activities:

Sewer	\$ 144,271
Water	<u>28,290</u>
	<u>\$ 172,561</u>

NOTE E—INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

The composition of interfund balances as of June 30, 2007 is as follows:

Advances to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>	<u>Purpose</u>
General Fund	Sewer Fund	\$ 70,921	Operational loan

The composition of interfund transfers as of June 30, 2007 is as follows:

Interfund transfers:

	<u>Transfers in:</u>		<u>Total</u>	<u>Purpose</u>
	<u>General Fund</u>	<u>Other governmental funds</u>		
Transfers out:				
Major Streets Fund	\$ -	\$ 37,508	\$ 37,508	Operations subsidy and debt service
Other governmental funds	<u>5,650</u>	<u>15,496</u>	<u>21,146</u>	Debt service and close fund
Total	<u>\$ 5,650</u>	<u>\$ 53,004</u>	<u>\$ 58,654</u>	

City of Scottville
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE F—DEFERRED REVENUE

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received, but not yet earned. At the end of the current fiscal year, the various components of deferred revenue, which represented unearned revenue reported in the governmental funds were for camping fees in the amount of \$4,800.

NOTE G—LONG-TERM DEBT

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007	Due within one year
Governmental activities:					
General obligation bonds	\$ 15,600	\$ -	\$ 15,600	\$ -	\$ -
Michigan Transportation					
Fund bonds	24,000	-	24,000	-	-
Installment purchase					
agreements	53,458	-	9,970	43,488	10,300
Landfill remediation costs	350,000	86,251	23,951	412,300	21,700
Compensated absences	<u>37,900</u>	<u>14,219</u>	<u>14,919</u>	<u>37,200</u>	<u>13,000</u>
Governmental activity					
long-term liabilities	<u>\$ 480,958</u>	<u>\$ 100,470</u>	<u>\$ 88,440</u>	<u>\$ 492,988</u>	<u>\$ 45,000</u>
Business-type activities:					
Revenue bonds	<u>\$ 2,824,313</u>	<u>\$ -</u>	<u>\$ 70,363</u>	<u>\$ 2,753,950</u>	<u>\$ 73,800</u>

Governmental activities:

Installment purchase agreements:

\$53,458 Installment Purchase Contract of 2005 payable
in annual installments of \$11,839 through October
2010; including interest at 3.45% \$ 43,488

Landfill remediation costs

Landfill remediation costs estimated annual cost of
approximately \$21,700 through June 2026 (note H) 412,300

Compensated absences 455,788

37,200

\$ 492,988

City of Scottville
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE G—LONG-TERM DEBT—Continued

Business-type activities:

Revenue bonds:

\$720,000 Water supply revenue bonds of 1975 due in annual installments of \$30,000 through January 2014; interest at 5%	\$ 210,000
\$375,000 Obligation to Mason County payable due in annual installments of \$10,000 to \$25,000 through March 2030; interest at rates varying from 4.5% to 5.6%	355,000
\$2,271,215 Obligation to Mason County due in annual installments of \$33,800 to \$118,800 through April 2040; interest at 4.5%	<u>2,188,950</u>
	<u>\$ 2,753,950</u>

For governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

The general obligation bonds are backed by the full faith and credit of the City.

The City was in compliance in all material respects with all the revenue bond ordinances at June 30, 2007.

Annual debt service requirements to maturity for debt outstanding as of June 30, 2007 follows:

Year ending June 30,	Governmental activities		Business-type activities	
	Principal	Interest	Principal	Interest
2008	\$ 32,000	\$ 1,521	\$ 73,800	\$ 127,533
2009	32,400	1,160	73,700	124,065
2010	32,800	787	73,700	120,586
2011	33,100	400	74,400	117,098
2012	21,700	-	76,400	113,569
2013-2017	108,500	-	322,200	516,405
2018-2022	108,500	-	332,200	444,363
2023-2027	86,788	-	421,200	358,477
2028-2032	-	-	474,400	252,065
2033-2037	-	-	498,600	144,293
2038-2040	-	-	333,350	29,454
	<u>\$ 455,788</u>	<u>\$ 3,868</u>	<u>\$ 2,753,950</u>	<u>\$ 2,347,908</u>

City of Scottville
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE H—OTHER INFORMATION

Risk Management

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees and natural disasters. The City manages its liability and property risk by participating in the Michigan Municipal Risk Management Authority (MMRMA), a public entity risk pool providing property and liability coverage to its participating members. The City pays an annual premium to MMRMA for its insurance coverage. The MMRMA is self-sustaining through member premiums and provides, subject to certain deductibles, occurrence-based casualty coverage for each incident and occurrence-based property coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Various deductibles are maintained to place the responsibility for small charges with the insured. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City manages its workers' compensation risk by participating in the Michigan Municipal Workers' Compensation Fund (MMWCF), a public entity risk pool providing workers' compensation coverage to its participating members. The City pays an annual premium to MMWCF for its workers' compensation coverage. The MMWCF is self-sustaining through member premiums and provides statutory workers' compensation coverage to its members by internally assuring certain risks and reinsuring risks through commercial companies. Settled claims resulting from these risks have not exceeded insurance coverage in any of the past three fiscal years.

The City carries commercial insurance for employee health and accident insurance. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Contingent Liabilities

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability to the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the City expects such amounts, if any, to be immaterial.

Landfill Remediation

During 1996, The City completed the landfill remediation project. As part of the landfill remediation, the City must continue to monitor the area. The monitoring will be done through the testing of well samples twice a year for at least thirty years. The estimated liability is reported in Note G. The liability is estimated based on the average actual costs over three years, then extrapolated to the number of years remaining. The change in estimate this year resulted in an increase to the liability for governmental activities at July 1, 2006 of \$86,251.

City of Scottville
NOTES TO FINANCIAL STATEMENTS—CONTINUED
June 30, 2007

NOTE H—OTHER INFORMATION—Continued

Commitments

At June 30, 2007, the City had entered into various agreements for construction projects. Below is a summary of those agreements.

<u>Fund</u>	<u>Project</u>	<u>Spent-to-date</u>	<u>Remaining Commitment</u>
General	Boat launch project	\$ 134,880	\$ 73,669
General	Campground project	41,555	462,363

Portions of these costs are being funded with grants.

NOTE I—EMPLOYEE PENSION PLAN

Deferred Compensation Plan

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Plan, available to all full-time City employees at their option, permits participants to defer a portion of their salary until future years. The deferred compensation is not available to participants until termination, retirement, death, or unforeseeable emergency. The City contributes 10 percent of participating employees' annual compensation each plan year. Total match contributions for the year ended June 30, 2007 was approximately \$31,600.

The Plan has created a trust for the exclusive benefit of the Plan's participants and beneficiaries under rules provided in Internal Revenue Code Section 401(f).

NOTE J—ECONOMIC DEPENDENCY

State of Michigan shared revenues represent 18 percent of General Fund revenues.

NOTE K—SUBSEQUENT EVENTS

In August 2007, the City purchased a new tractor for \$20,870.

REQUIRED SUPPLEMENTARY INFORMATION

City of Scottville
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
General Fund
For the year ended June 30, 2007

	Budgeted amounts		Actual	Variance with final budget - positive (negative)
	Original	Final		
REVENUES				
Property taxes	\$ 334,600	\$ 349,600	\$ 374,496	\$ 24,896
Licenses and permits	5,180	2,180	8,443	6,263
Intergovernmental revenues				
Federal	20,000	20,000	20,000	-
State	526,694	526,694	284,060	(242,634)
Charges for services	148,925	166,325	149,063	(17,262)
Fines and forfeitures	3,000	3,000	3,367	367
Investment earnings	19,500	33,500	34,703	1,203
Other	9,900	14,100	13,046	(1,054)
Total revenues	1,067,799	1,115,399	887,178	(228,221)
EXPENDITURES				
Current				
General government				
City commission	31,913	60,503	107,552	(47,049)
City manager	69,950	69,950	70,014	(64)
Elections	2,954	3,983	4,090	(107)
Assessor and board of review	10,032	10,492	9,253	1,239
Clerk	19,193	28,201	27,487	714
Treasurer	37,943	37,943	34,962	2,981
City hall and grounds	35,168	34,568	34,334	234
Parking lot and mall	7,319	10,144	10,088	56
Brookside Cemetery	19,483	19,483	18,845	638
Public safety				
Police department	154,299	159,149	158,190	959
Fire department	23,683	16,679	16,678	1
Zoning inspections	4,961	4,961	4,938	23
Public works				
Department of public works	72,125	87,050	86,006	1,044
Alleys and sidewalks	2,484	5,231	4,543	688
Street lighting	21,000	21,000	22,341	(1,341)
Culture and recreation				
Recreation department	46,526	47,426	40,909	6,517
Riverside Park and grounds	69,860	73,722	69,152	4,570
Capital outlay	689,342	308,637	319,592	(10,955)
Total expenditures	1,318,235	999,122	1,038,974	(39,852)
Excess of revenues over (under) expenditures	(250,436)	116,277	(151,796)	(268,073)
OTHER FINANCING SOURCES				
Proceeds from long-term debt	125,000	77,400	-	(77,400)
Transfers in	2,500	2,500	5,650	3,150
Total other financing sources	127,500	79,900	5,650	(74,250)
Net change in fund balance	\$ (122,936)	\$ 196,177	(146,146)	\$ (342,323)
Fund balance at July 1, 2006			762,560	
Fund balance at June 30, 2007			\$ 616,414	

City of Scottville
Required Supplementary Information
BUDGETARY COMPARISON SCHEDULE
Major Streets Fund
For the year ended June 30, 2007

	Budgeted amounts			Variance with final budget - positive (negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental revenues				
Federal	\$ 35,000	\$ 70,000	\$ 273,660	\$ 203,660
State	88,500	88,500	90,579	2,079
Investment earnings	<u>3,400</u>	<u>6,000</u>	<u>7,108</u>	<u>1,108</u>
Total revenues	126,900	164,500	371,347	206,847
EXPENDITURES				
Current				
Public works				
Maintenance	18,111	18,111	12,053	6,058
Traffic services	795	1,385	1,182	203
Trunkline maintenance	14,116	16,091	16,588	(497)
Winter maintenance	14,526	11,521	12,213	(692)
Administration	545	700	700	-
Capital outlay	<u>32,000</u>	<u>110,662</u>	<u>340,849</u>	<u>(230,187)</u>
Total expenditures	<u>80,093</u>	<u>158,470</u>	<u>383,585</u>	<u>(225,115)</u>
Excess of revenues over (under) expenditures	46,807	6,030	(12,238)	(18,268)
OTHER FINANCING USES				
Transfers out	<u>(37,508)</u>	<u>(37,508)</u>	<u>(37,508)</u>	<u>-</u>
Net change in fund balance	\$ <u>9,299</u>	\$ <u>(31,478)</u>	(49,746)	\$ <u>(18,268)</u>
Fund balance at July 1, 2006			<u>170,842</u>	
Fund balance at June 30, 2007			\$ <u>121,096</u>	

OTHER SUPPLEMENTAL INFORMATION

City of Scottville
COMBINING BALANCE SHEET
Other Governmental Funds
June 30, 2007

		Special Revenue					Debt Service		Permanent
	Total other governmental funds	Local Streets	Garbage and Refuse Collection	DDA Operations	Law Enforcement	Capital Project	1996 Street Debt	2001 Street Debt	Cemetery Perpetual
ASSETS									
Cash and investments	\$ 235,887	\$ 22,320	\$ 38,835	\$ 48,160	\$ -	\$ 35,018	\$ -	\$ -	\$ 91,554
Accounts receivable	1,540	-	1,540	-	-	-	-	-	-
Due from other governmental units	4,294	4,294	-	-	-	-	-	-	-
Inventories	3,767	-	3,767	-	-	-	-	-	-
Total assets	<u>\$ 245,488</u>	<u>\$ 26,614</u>	<u>\$ 44,142</u>	<u>\$ 48,160</u>	<u>\$ -</u>	<u>\$ 35,018</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 91,554</u>
LIABILITIES AND FUND BALANCES									
Liabilities									
Accounts payable	\$ 5,536	\$ 318	\$ 3,762	\$ 1,456	\$ -	\$ -	\$ -	\$ -	\$ -
Accrued liabilities	120	120	-	-	-	-	-	-	-
Due to other governmental units	6,641	-	6,641	-	-	-	-	-	-
Total liabilities	12,297	438	10,403	1,456	-	-	-	-	-
Fund balances									
Reserved for:									
Inventories	3,767	-	3,767	-	-	-	-	-	-
Capital projects	35,018	-	-	-	-	35,018	-	-	-
Rights of way maintenance	18,535	18,535	-	-	-	-	-	-	-
Perpetual care	91,554	-	-	-	-	-	-	-	91,554
Unreserved	84,317	7,641	29,972	46,704	-	-	-	-	-
Total fund balances	<u>233,191</u>	<u>26,176</u>	<u>33,739</u>	<u>46,704</u>	<u>-</u>	<u>35,018</u>	<u>-</u>	<u>-</u>	<u>91,554</u>
Total liabilities and fund balances	<u>\$ 245,488</u>	<u>\$ 26,614</u>	<u>\$ 44,142</u>	<u>\$ 48,160</u>	<u>\$ -</u>	<u>\$ 35,018</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 91,554</u>

City of Scottville
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
Other Governmental Funds
For the year ended June 30, 2007

		Special Revenue					Debt Service		Permanent
	Total other governmental funds	Local Streets	Garbage and Refuse Collection	DDA Operations	Law Enforcement	Capital Project	1996 Street Debt	2001 Street Debt	Cemetery Perpetual
REVENUES									
Property taxes	\$ 67,729	\$ -	\$ 31,051	\$ 36,678	\$ -	\$ -	\$ -	\$ -	\$ -
Intergovernmental revenues - State	31,878	31,878	-	-	-	-	-	-	-
Charges for services	30,587	-	29,537	-	-	-	-	-	1,050
Investment earnings	13,262	761	2,808	2,943	-	1,368	-	-	5,382
Total revenues	143,456	32,639	63,396	39,621	-	1,368	-	-	6,432
EXPENDITURES									
Current									
General government	21,334	-	-	21,334	-	-	-	-	-
Public works	109,370	62,478	46,892	-	-	-	-	-	-
Debt service									
Principal	63,766	-	24,166	-	-	-	15,600	24,000	-
Interest and fees	2,100	-	-	-	-	-	1,092	1,008	-
Capital outlay	4,590	-	-	4,590	-	-	-	-	-
Total expenditures	201,160	62,478	71,058	25,924	-	-	16,692	25,008	-
Excess of revenues over (under) expenditures	(57,704)	(29,839)	(7,662)	13,697	-	1,368	(16,692)	(25,008)	6,432
OTHER FINANCING SOURCES (USES)									
Transfers in	53,004	12,500	-	-	-	-	15,496	25,008	-
Transfers out	(21,146)	-	-	(15,496)	(1,950)	-	-	-	(3,700)
Total other financing sources (uses)	31,858	12,500	-	(15,496)	(1,950)	-	15,496	25,008	(3,700)
Net change in fund balances	(25,846)	(17,339)	(7,662)	(1,799)	(1,950)	1,368	(1,196)	-	2,732
Fund balances at July 1, 2006	259,037	43,515	41,401	48,503	1,950	33,650	1,196	-	88,822
Fund balances at June 30, 2007	\$ 233,191	\$ 26,176	\$ 33,739	\$ 46,704	\$ -	\$ 35,018	\$ -	\$ -	\$ 91,554

BRICKLEY DELONG

CERTIFIED PUBLIC ACCOUNTANTS

September 27, 2007

City Commission
City of Scottville
Scottville, Michigan

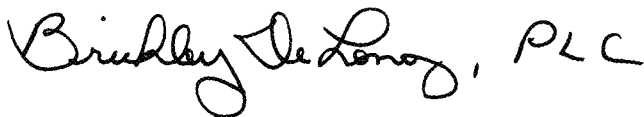
In planning and performing our audit of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the City of Scottville as of and for the year ended June 30, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the City of Scottville's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Scottville's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Scottville's internal control.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, we believe that the attached significant deficiencies are material weaknesses.

This communication is intended solely for the information and use of management, the City Commission, and others within the Organization and is not intended to be and should not be used by anyone other than these specified parties.



MATERIAL WEAKNESSES

Recommendation 1: The internal control procedures should be further segregated.

During our audit, we noted that the City Manager performed many of the duties of the Treasurer during portions of the year. The maintenance of the responsibilities of these two positions by one individual provides the opportunity for errors and misappropriations of funds to go undetected.

The implementation of an array of segregated duties, including appropriate review and approval procedures by the administration and supervisory personnel, could reduce the opportunity for errors and misappropriations of funds to go undetected.

Recommendation 2: General ledger account balances should be regularly analyzed for their accuracy in relation to supporting documentation.

During our audit, we noted various account balances that were not reconciled to supporting documentation on a timely basis. This resulted in a large number of adjustments at year end. Since some of the adjustments were individually significant to the affected funds and their accounts, the adjustments significantly affected the interim financial statements.

The timely review and analysis of all general ledger account balances throughout the year and the reconciliation of significant account balances to supporting schedules would improve the accuracy of interim financial statements.